

CHAPTER II

HOME Match Requirements

General Requirements

HOME Federal Final Rule 24 CFR Part 92 requires HOME Contractors to provide a 25% match on each HOME dollar the contractor receives except for administrative funds. State regulations for the HOME Program, 25 CCR Part 8200, also govern match.

Match contributions must be from nonfederal sources, and must be permanent.

Critical Issues to Consider in Counting Match

Source: must be eligible

Value: must be correctly calculated

Timing: when the match contribution can be counted as contributed is crucial

What Counts as Match

Generally: Contributions must be made to housing that qualifies as affordable under the HOME regulations. This means either:

- Housing assisted with HOME funds, or
- Housing that is not HOME assisted, but would qualify as affordable under HOME (called HOME match-eligible housing). See Appendix A p. 5 for a listing of the requirements for HOME match-eligible housing. The State Recipient or CHDO must monitor the affordability of HOME match-eligible housing.

The match contribution itself does not need to be invested in the same project, program, or activity as that for which it is being counted as match.

EXAMPLES:

City draws down \$200,000 in HOME funds for a rental rehabilitation project, and incurs a \$50,000 match requirement. The city satisfies this requirement by appropriating \$50,000 in general fund money to provide downpayment assistance to 10 HOME-eligible first-time homebuyers.

County undertakes a rehabilitation project with \$100,000 in HOME funds, which incurs a \$25,000 match obligation. Another project across town involving new construction for single-family homes uses \$200,000 in HOME funds, incurring a \$50,000 match obligation. Using non-federal funds, County completes \$75,000 in infrastructure improvements directly associated with the new construction project. This amount can be applied toward the match obligation of both projects.

Eligible Forms of Match

Eligible forms of match are identified in 24 CFR 92.220 and listed below. Further guidance is provided in CPD Notice 97-03 included as an Appendix to this chapter.

1. Cash Contributions/Cash Equivalents

Cash contributions may be provided in the form of grants, deferred-payment loans, or amortizing loans to a HOME project or program beneficiary.

Sources for cash match include: below market interest rate loans, State Low-Income Housing Tax Credits, state or local General Fund revenues, housing trust funds, foundation grants, and private donations. A cash donation made to a non-profit (or for-profit) organization specifically for use for a HOME-assisted project or program can be counted as match.

a. Grants and Deferred Payment Loans

Value: The full face value of the grant or the forgivable deferred payment loan can be counted as match.

Credited:

Grants are counted as match at the time the funds are expended.
Deferred payment loans are credited at the time of loan closing.

b. State Low-Income Housing Tax Credits

Value: Match value is the amount that the syndicator pays for the credits.

Credited: At the time of commitment by the syndicator

Documentation: Letter from the syndicator indicating what it is willing to pay for the credits

EXAMPLE:

CHDO is awarded \$1 million in State Low-Income Housing Tax Credits. Syndicator is willing to pay \$500,000 for them, and provides a letter to the CHDO stating that it will pay this amount for the credits. CHDO can claim this \$500,000 as match. Note: The amount of the match can only be claimed for one HOME program year. No match carryover is allowed even if the syndicator actually pays the CHDO over several years.

c. Loans To Be Repaid to a Local HOME Account

Value: The full face value of the loan can be counted as match.

Credited: At the time of loan closing.

EXAMPLE:

City makes a \$50,000 loan to a HOME-assisted project using non-federal funds. The term of the loan is 20 years, and the interest rate is 6%. By agreement, the repayments will be deposited in the local HOME account, rather than the city's General Fund. The amount of the match contribution is \$50,000.

d. Loans NOT Repaid to a Local HOME Account – Borrowed Funds

In this scenario, a State Recipient, CHDO, public entity or corporation has borrowed money in order to provide a below-market interest loan to HOME-assisted or HOME match-eligible housing (other than through loans financed with mortgage revenue bond proceeds).

Value: Match value is the Net Present Value of the difference between the original loan payment and the payment on the below-market interest rate loan (yield foregone). See example below.

Credited: Match is credited at the time of loan closing

EXAMPLE:

County borrows \$100,000 at 8% for 15 years from a bank, and loans the money to a HOME project at 4% interest for 15 years.

The match value of the HOME loan is the net present value of the yield forgone at a rate equal to the term of the higher interest loan.

Loan Amount -	\$100,000
Monthly payment from County to Bank -	\$955.65
Monthly payment from HOME project to County -	<u>\$739.68</u>
Yield Foregone -	\$215.96
Net Present Value of yield forgone @ 8% for 15 years =	\$22,598
<u>Match Value = \$22, 598</u>	

e. Loans Not Repaid To Local HOME Account – Non-Borrowed Funds

If a State Recipient, CHDO, public entity or corporation has non-borrowed funds from which they will provide a below-market interest rate loan to HOME-assisted or HOME match-eligible housing.

Value: Match value is based on the Net Present Value of the yield foregone at a rate equal to a corresponding T-Bill rate:

Multifamily housing - 10-year T-Bill plus 300 basis points

Single-family housing with an adjustable rate loan – 1 year T-Bill plus 250 basis points;

Single-family housing with a fixed-rate loan – 10-year T-Bill plus 200 basis points.

Credited: Match is credited at the time of loan closing.

f. Non-Amortizing Loans Due on Sale of Property

Value:

If repaid to the HOME local account, count the full face value of the loan, regardless of loan terms.

If not to be repaid to HOME local account, calculate a present discounted value of the yield foregone based on a loan term equal to the HOME period of affordability for the housing units being assisted, (i.e., 5, 10, 15, 20, or 30 years).

Credited: Match is credited at the time of loan closing.

2. Foregone Fees, Taxes, and Charges

What Counts as Match:

- Can count the value of waived taxes, fees, or charges on HOME-assisted units normally and customarily imposed on all projects in the jurisdiction, such as property taxes, transfer taxes, permit fees, recordation fees, and impact fees.

- Can count fees or charges associated with the transfer or development of real estate normally levied by public or private entities, such as title insurance premiums, and utility hook-up fees or surcharges.
- Can not count fees associated with the HOME Program, developers' fees, or professional fees and charges. (Donated professional services are an eligible matching contribution under 92.220(a)(8) but not under this match category.)

Value:

- Value of the match is based on the customary and reasonable means for establishing the value of the waived charges.
- One year waiver, count full face value
- If waived for future years, must calculate a present discounted cash value of the amount forgiven, based on a Treasury security rate with a maturity date closest to the number of years the taxes, fees, or charges will be waived, deferred, or foregone.

EXAMPLE:

A local jurisdiction decides to forego a special assessment on a HOME-assisted project of \$2,000 for 10 years, credited at the start of each year. The Treasury security rate for 10-year notes is 4.5%.

Total Amount Forgiven -\$20,000 (\$2,000 X 10)

10 year T-note rate – 4.5%

Net Present Value – \$15, 825

Match Contribution -\$15,825

- Property Tax Waivers: For taxes based on the value of property, the match contribution for a one-year waiver is based on the value of the tax waived that year. For multi-year waivers, the match contribution is based on a Net Present Value calculation of the after-improved appraised value of the property (not development cost). Can only claim match on the HOME-assisted units, and only for the required period of HOME affordability.

Credited: Counted as match when the government or public or private entity officially waives, foregoes, or defers the taxes, fees, or charges, and notifies the project owner.

Documentation: Must have a letter from the entity granting forgiveness, and where appropriate, establishing the value of the contribution.

3. Donated Land or Other Real Property

What Counts

- Must be a permanent donation
- Must be actual donation of land, or the sale of land at demonstrably below market value for use in an affordable housing project.

Calculating the Value of Donated Property

Generally, the value of the donation is the appraised value of the land minus any debts, liens, or other encumbrances. However, there are several ways to calculate the value of the donation.

Donated Land Acquired with Federal Funds: The property must have been acquired and donated specifically for HOME-assisted or HOME match-eligible housing. The match contribution is the difference between the property's appraised value at acquisition, and the actual acquisition cost.

EXAMPLES:

A non-profit purchases a property with HOME funds for \$55,000. The appraised value is \$75,000, and the seller acknowledges the discounted sales price as a donation to affordable housing. The match contribution is \$20,000.

A county housing agency purchases a property appraised for \$75,000. The sales price is \$55,000. The seller acknowledges the discounted sales price as a donation to affordable housing. The county uses \$30,000 of its (non-federal) funds, and \$25,000 of its HOME funds. The match contribution is \$50,000, the difference between the sales price and the appraised value, (\$20,000) plus the county's contribution of non-federal funds (\$30,000).

Donated Land Acquired with Non-Federal Resources – must be donated to HOME-assisted or HOME match-eligible housing. The match contribution is 100% of the property value minus any debts, liens, and encumbrances.

EXAMPLE:

County purchases a property for \$100,000 with county general funds, and donates it to a local non-profit to provide HOME tenant-based rental assistance. The appraised value is \$200,000. Debts, liens, and encumbrances on the property equal \$50,000. The match contribution is \$150,000.

- Properties may be donated by non-federal public entities, private entities, and individuals.

- Properties may not be donated by applicants for, or recipients of, HOME assistance or from contractors or investors who own, are working on, or proposing to apply for, HOME assistance.
- Properties must be appraised by a certified, independent appraiser based on generally recognized appraisal practices, and the best available data.
- At the time of acquisition with federal assistance, all sales below market value (discounted sales price), must be acknowledged in writing by the seller as donations to affordable housing.

Credited: Counts as match when the actual transfer of ownership occurs.

4. On-Site & Off-Site Infrastructure

To Be Eligible as Match:

- The cost of the infrastructure must not have been paid for with federal funds.
- The State Recipient or CHDO must document that the infrastructure is directly required for HOME-assisted housing (cannot be just for a HOME match-eligible project). Examples include:
 - Streets
 - Streetlights located on or immediately adjacent to the project site
 - Sidewalks
 - Gutters
 - Utility lines and connections serving the project.

The infrastructure need not have been specifically identified as serving HOME-assisted housing when installed, but must be completed no earlier than 12 months before HOME funds were awarded to a project or program in order to have it count toward the HOME match.

Infrastructure not directly facilitating the HOME-assisted housing, such as neighborhood parks or bridges, is not an eligible matching contribution.

Value: If the infrastructure serves both HOME and non-HOME assisted units, match value is counted on a pro-rata basis, and credited according to the value attributed to the HOME-assisted units.

Credited: At the time funds are expended, or at time of HOME award, if work completed no more than 12 months before the HOME award.

EXAMPLE:

Using non-federal funds, a city installs sidewalks and a street to serve a HOME multifamily rental project. 60% of the units are HOME-assisted. The city may count 60% of the cost of installing the infrastructure toward its match contribution.

5. Proceeds from Affordable Housing Bonds**What Counts:**

- Mortgage revenue bonds issued by a public entity for affordable housing (e.g., CHFA, Rural Gold bonds).
- Bond proceeds must be loaned or granted to HOME-assisted or HOME match-eligible housing, and
- Not repaid to the HOME local account

Value:

Single-Family Housing - Can count 25% of the face value of each loan

Multi-Family Housing - Can count 50% of the face value of each loan

Credited: At loan closing. However, total match credit from these loans may not constitute more than 25% of a PJ's total annual match obligation.

EXAMPLE

The State issues a mortgage revenue bond for homeownership. During the State's 2001 HOME program year, \$500,000 is committed to specific loans to qualified families. \$125,000 of this is available as a match contribution (25% of the face value of the loans.) The State's match liability for the year, generated by all of its HOME activities, is \$300,000. 25% of this total match liability, (\$75,000), can be satisfied through mortgage revenue bond proceeds each year. The State can only count \$75,000 of this money toward its match liability.

6. Donated Use of Site Preparation & Construction Materials

Value: Provided that the materials were not initially acquired with federal funds, a State Recipient or CHDO may count the value of site preparation and construction materials donated to HOME-assisted or HOME match-eligible housing. Must document their value in accordance with customary cost-estimate procedures.

Credited: Counts as match at the time the material is used.

7. Donated Use of Site Preparation & Construction Equipment

Value: Can count the full value of the use of site preparation and construction equipment donated to HOME-assisted and HOME match-eligible housing (rental rate X number of hours donated).

Documentation: Must have a letter from the equipment owner acknowledging the donation of a certain number of hours of use, and establishing the usual hourly/daily rate for equipment rental. The valuation must be reasonable.

Credited: Counts at the time the equipment is used.

8. Donated or Voluntary Labor & Professional Services - applies to both HOME-assisted, and HOME match-eligible housing.

Value:

- Unskilled donated/voluntary labor is valued at a rate set by HUD, currently \$10 per hour. Must document hours worked.
- Skilled donated/voluntary labor is valued at the rate normally charged. Must have a letter stating the usual fee for labor/services, and stating the value of the labor/services provided.

Credited: At time the labor or service is performed.

9. “Sweat” Equity – applies to both HOME-assisted and HOME match-eligible housing.

Must be contributed under an established sweat equity program for homeownership.

Value: At same rate as unskilled voluntary labor (\$10 per hour)
Must document hours actually worked. Only sweat equity performed until project completion may be counted as match.

Credited: At the time the work is performed.

10. Direct Cost of Supportive Services Provided to HOME-Assisted Families

To Be Eligible as Match:

- The supportive services must be provided to residents of HOME-assisted units during the HOME affordability period, (to residents of HOME TBRA during the period of the rental assistance contract); and
- Must not be paid for with federal funds.

Does not count as match if provided for non-HOME-assisted households, including those living in HOME match-eligible housing.

Value: Direct costs for services necessary to facilitate independent living or services required as part of a self-sufficiency program. Direct costs are limited to costs for salary, benefits, and materials (e.g., food, medical supplies), directly attributable to the provision of services to HOME residents. For match purposes, the provider's overhead costs (rent, office equipment and supplies, etc.), are not considered direct costs.

Documentation: Must have invoices, time cards or similar documents.

Credited: At the time the social services are provided during the period of affordability.

11. Homebuyer Counseling Services

What Counts: Homebuyer counseling provided to families that acquire properties with HOME funds.

- Can count direct cost of providing counseling services, including pre-purchase counseling as well as on-going counseling provided during the period of affordability. Direct costs are limited to salary, benefit, and materials costs directly related to the provision of homebuyer counseling services (e.g., pamphlets, first-time homebuyer tool kits). For match purposes, direct costs do not include the provider's overhead (e.g., rent, office equipment and supplies, etc.).
- The counseling services may be part of a program that is not specific to the HOME program, but only the cost of counseling for households that complete purchases with HOME funds can be counted toward match.

Documentation: Must have invoices, time cards or similar documents supporting these direct costs.

Credited: Pre-purchase counseling is credited as match at the time the home is purchased; post-purchase counseling is credited as match at the time the counseling services are provided.

12. Ineligible HOME Costs As Eligible Matching Contributions

Non-federal funds used to fund costs that are ineligible under the HOME program can be counted as match.

What Counts:

- Project-based rental assistance

- Capitalization of a replacement reserve or a reserve to cover increases in operating costs beyond 18 months (capitalization of an initial operating reserve for an 18-month rent-up period is a HOME-eligible cost)
- Operating subsidies
- Costs associated with the non-affordable units in a building where more than 50% of the units are HOME-assisted
- Costs associated with the commercial portion of a mixed-use project, in which at least 51% of the floor space is residential

Value: Full value of the contribution made

Credited: These are considered cash contributions, credited at the time the funds are expended.

Ineligible Forms of Match

- Contributions made with or derived from federal resources or funds, regardless of when the funds were received or expended, including CDBG funds
- Interest rate subsidy attributable to federal tax exemption on financing (e.g., state or local bonds), or the value attributable to federal tax credits
- Owner equity or investment in a project, except “sweat” equity and state tax credit equity. Owner equity or investment is generally ineligible as match because it is not considered a permanent contribution to the project, but rather value accruing to the owner.
- Any contributions from applicants for, or recipients of, HOME assistance or contracts, or from investors who own, are working on, or are proposing to apply for, assistance under the HOME program. (This does not prohibit contractors who do not own any HOME project from contributing professional services, in accordance with 24 CFR 92.220(a)(8), or prohibit persons from contributing “sweat equity”, in accordance with 24 CFR 92.220(a)(9).)
- State Recipient or CHDO cost of administering HOME-assisted programs or projects, or HOME match-eligible projects
- Contributions already counted as match toward any other federally-funded program
- Any form of match not meeting the requirements of 24 CFR 92.220

General Match Information

- State Recipients and CHDOs must provide match for each separate contract with HCD, but if the contract includes two activities, match generated by one activity can be used to satisfy the match requirement of the other activity.
- State Recipients and CHDOs may not carry forward excess match to another contract.
- You do not have to contribute all match before drawing any HOME funds.
- You must have enough match contributed at time of draw to meet the 25% required based on the amount of that draw.
- Unless otherwise requested by a State Recipient or CHDO, repayments of matching contributions shall be made directly to the Department for deposit into the Department's local HOME account rather than a local account of the State Recipient (HOME State regulations, Section 8206(d)).

Documentation – Proper documentation is critical to being able to count something as match

- Documentation of match must be submitted to HCD no later than filing of the Project Completion Report.
- HCD reserves the right to request documentation of match at an earlier stage in the program/project.

Planning for Match

- Keep match in mind when planning an activity or designing a new affordable housing program. Consider the following strategies:
 - Negotiate fees and tax abatements.
 - Cities and counties should review their capital expenditure budgets for possible infrastructure projects to match HOME dollars. Consider using non-federal monies for improvements in areas where HOME activities are likely, so that these can count as match. Make sure these improvements are undertaken within one year of the HOME award for which it is being counted as match.
 - Time donations of land and real property so that they can count when needed to meet your match obligation.

- Design and capitalize a housing trust fund.
- Look for projects supported with state funds and local public resources that might be HOME match-eligible.

EXAMPLE:

City has an on-going homeowner rehabilitation program funded with local General Fund revenues. The households meet the HOME income requirements, and the rehabilitation work meets local codes and standards. Annual program expenditures can be counted as a HOME matching contribution.

- Talk to foundations and charities about contributions to affordable housing.
- Look for opportunities to use donated labor, materials, and services for upcoming projects.

EXAMPLE:

A local non-profit has an annual “Christmas in April” volunteer effort where donated labor and materials are used to rehab the homes of low-income households. The fair-market value of the donated labor and materials may be counted toward the HOME match of the affordable housing developer or CHDO.

- At the start of each funding cycle, try to anticipate the expenditures of HOME dollars, and calculate the total amount of match needed.
- Develop a system to keep tabs on contingent as well as actual match liabilities for your HOME projects and programs.